

Candor/Deception

- How could you have sent out an Annual Report which paints such a favorable picture of the company's future and then a few weeks later tell us that the whole US tobacco business is in the tank?
 - *Report went to press when consumer confidence was higher and trends more favorable, weeks before we had sufficient information to make the decision and announce it publicly.*
- Now that you've been chairman for over a year, do you believe that tobacco executives tell the truth? Have they engaged in fraud in the past?
 - *There is an anti-tobacco lobby that would like you to believe otherwise, but we are extremely careful about our communications. We want it to be clear, concise and accurate. That's the way it is now, and from everything I have seen, that is the way the company has been run well before I arrived.*
- Generic Answer: *First, as we pointed out on April 2, the factors leading us to conclude that the pricing actions we took were necessary became clear only after the Annual Report had gone to press. As consumer confidence was improving late last year and in early 1993, the situation looked as though we would be seeing improvement in the sale of our premium brands.*

The information we provide shareholders, the public, the media and anyone else is as clear and as candid as it can be at the time it is offered. We, in this country, are in an extremely challenging and dynamic period of time. Given the rate at which things change, we are all going to have clearer vision looking back than we will looking forward. However, we will make every effort to tell you, as shareholders, what we know, when we know it.

To the broader point of whether we are candid, let me say without equivocation that my colleagues in the tobacco industry are as forthcoming a group as any I know in industry and elsewhere. The whole industry has been subject for years to criticisms for alleged lack of candor when we will not embrace our critics' point of view. But, our statements are not made untrue by our critics' failure to believe them nor are they made less true through repetition..

Change in Leadership

- Given the performance of the company, shouldn't you resign?
 - *I believe in the course we are on and believe it is in the best interest of the company and the shareholders. I am committed to making all of our strategies work and I am committed to enhancing shareholder value over the longer term. I have no intention of stepping away from this challenge.*
- Doesn't this prove a food person can't run a tobacco company?
 - *Actually, some of the challenges with regard to protecting our brand franchises are looking remarkably like challenges the food company has faced.*
 - *I think we have a very strong foundation of management talent and experience running the operating units and the corporation.*
- If you weren't chairman, would you vote to retain the management of this company?
 - *Yes.*
- Can you give me three good reasons we should vote to retain you? or, the current directors?
 - *Let me simply say that the kind of challenges we are facing today are in no way unique to our company. In our Board and in our management group I believe we have a very broad range of experience in the individual lines of business we are in as well as in assessing global strategies for growth which will serve the shareholders' interests very well in the future*

- Was the Board of Directors asleep at the switch?

-- *No. They are regularly informed of significant business developments within each of the operating units and they thoroughly reviewed and agreed with the most recent pricing strategy announced earlier this month.*

- If this plan doesn't work, will you resign?

-- *I will not resign. I am here to find solutions, not walk away from challenges.*

- *Generic Answer: Decisions about who leads the company, compensation and rewards or penalties for performance rest with your Board of Directors. The outside directors are a very distinguished group of individuals with a broad range of business experience. The Board is a very active group that meets formally at least 11 times a year. There are several times more committee meetings and discussions about the issues your company must confront.*

I believe that the actions we have taken are in the best interest of the company and its future, or I would not have recommended them. I will continue to make judgments based on what I believe to be in the company's and the shareholders' best long term interests.

Ultimately, your Board of Directors must decide whether the direction set by me and the management team is the proper one and whether those of us in the positions we hold today are the right ones for the job.

I should note that the PM USA pricing strategy which we recently announced was thoroughly reviewed with and endorsed by the Board, as is any business decision of significance.

Compensation/Perks

- Given the performance, don't you think you are grossly overpaid?

-- *Compensation for me and other senior officers is determined by the Board. They take into account the performance of the company when making their determinations.*

- Will you take a cut in compensation?
 -- *(Same answer as above.)*
- Will you stop flying on the corporate jet?
 -- *The aircraft support the efficient conduct of our business activity and I will continue to use them.*
- Generic Answer: *Compensation issues are decided by the Board. The report of the Compensation Committee which appears in this year's proxy statement explains fully the way in which such decisions are made. Use of the company's assets such as aircraft is determined on the basis of how best to conduct the company's business.*

Making the Pricing Strategy Decision

- Whose decision was it to take this drastic action? Did you endorse it? Did the Board understand it? Did anyone consider the consequences?
 -- *PMUSA recommended the strategy. It was thoroughly reviewed and discussed with the corporate management. And, it was reviewed and endorsed by the Board. The price gap issue has been discussed at great length over the past several months, so the topic and the nature of the problem was not new. Having seen the trends since the first of the year, we all believed that the action recommended was correct. We continue to believe that this was a good decision.*

- Wasn't it idiotic to announce a price cut of Marlboro while the Clinton Administration is considering an excise tax increase?
 - *The Clinton Administration schedule seems to be slipping and we believe that the price gap issue is one that must be addressed independent of any policy or tax changes coming from Washington. In any event, a final decision on excise tax increases are many months away at best.*
- Who got the company into this mess? Is Hamish Maxwell to blame?
 - *No single person is to blame....certainly not Hamish Maxwell.*
 - *The price gap issue in tobacco may be a relatively new phenomenon for this industry, but it has been something that many consumer packaged goods companies have had to deal with for many years. Much of the problem really results from national economic trends and more price conscious consumers.*
- Generic Answer: *The strategy to regain market share for anyone of our products must be developed within the operating company running the business. There was no exception in this case. There was involvement throughout the process by corporate management to understand the options, the recommendation and the expected outcomes. In the end, the management of both PMUSA and PM Companies took the recommendation to the Board. The Board had been briefed over the past several months on the volatile pricing environment in the industry and the strategies that might have to be taken under various scenarios. The issue, therefore, was very familiar to them and the logic of the recommendations from PMUSA was clear. The Board concurred with the recommendations of management believing them to be in the long term best interest of the company and the shareholders.*

Announcing the decision

- Why did the financial analysts learn about this first? Was this to help the big institutions get out first before ordinary loyal shareholders know what was happening?
- *Generic Answer: We determined that the decision should be announced as soon as it was made. It was our belief that the best way to make known our new pricing strategy was to inform the analyst community and the media simultaneously. The company's officers participated in face-to-face briefings and question and answer sessions with investment analysts, fund managers and brokers as well as the financial press. We sought to insure that accurate information went to as many people as possible, as fast as possible and tried to insure that it was transmitted before the markets opened.*

Let me stress that our announcement on April 2 was made before the market opened. It was made to the analysts and immediately thereafter to the financial media so that everyone would learn of our decision as soon as possible.

What's Ahead

- Is this the beginning of a nightmare? What about our other brands?
 - *To be honest about it, today's consumer is looking for value like never before and, while I wouldn't call it a nightmare, I will tell you that all consumer products companies are going to be challenged like never before.*
- If you think Marlboro can't maintain its market share without a 40 cent price drop, what do you think will happen when Clinton raises the price \$1 to \$2 a pack?
 - *First, such a tax increase is exactly what the economy does not need. It would be regressive and it would cost jobs. Not just in our industry, but in convenience stores and others who market cigarettes.*

- *The tax increase would, of course, raise the price of all cigarettes. The consumer would find the price gap less significant, which might help our premium brands in some ways.*
- *Most troubling would be the growth of contraband, a phenomenon people are just beginning to understand in Canada. This problem brings with it organized crime and other law enforcement related issues.*
- Last week you announced someone was going to take over worldwide tobacco. Will he get rid of the PM USA management?
 - *Geoff Bible is coming to build on the global nature of our tobacco business. He and I both have confidence in the management of PM USA.*
- Given all the problems facing the tobacco business, have you considered getting out of the business?
 - *It is hardly something we would walk away from. In many respects the strength of the worldwide tobacco business is not fully appreciated. The cash flow generation from our tobacco business has tremendous value and we hope going forward it will be better understood.*
- Have you thought about splitting up the company?
 - *Every year we engage in an exercise that examines the strengths and weaknesses of the company. If there is ever logic to such a dramatic move, we would recommend it to the Board for their consideration. We have not done that.*

- Have you thought of splitting the stock into tobacco and food issues?

-- *Again, not something management has recommended. We are watching the RJR approach but have not seen anything yet to suggest it would enhance our shareholders' value.*

- *Generic answer: What you are asking is "what is ahead?" All I can tell you is that we are very dedicated to the task of implementing our new pricing strategy and regaining our share of the premium tobacco business. I believe that we have the talent and the strategy to be successful; however, the market place is full of uncertainties and we will constantly look for ways to improve our plan as well as looking at options to enhance shareholder value. At this time I cannot comment on an option that we do not have under consideration.*

Misc.

- Andy Rooney said on 60 Minutes that he can't see how tobacco company executives can live with themselves.....how do you respond to that?
- *Generic Answer: The kind of commentary that many in the media offer is offensive. We market our tobacco products to adults who choose to purchase them. We conduct ourselves in a professional and absolutely ethical manner. I am proud to be Chairman of this company and proud to work with the fine people who work at Philip Morris.*

Issue Specific Questions -- (Answers to be developed from final script)

- How much will the dividend increase this year?if you can't say it will increase, can you rule out a decrease?
- How many shares of stock is the company planning to buy back this year? Do you still have confidence in the stock?